Dr Kenneth Kaunda District Municipality
Annual Financial Statements
for the year ended 30 June 2012

# General Information

| | | |
|---|---|---|
| **Legal form of entity** | 1 | |
| | 1 | |
| **Mayoral committee** | 1 | |
| Executive Mayor | Councillor B E Moloi (Ms) | |
| | a | |
| Councillors | a | |
| | a | |
| | a | |
| | a | |
| **Accounting Officer** | 1 | 1 |
| **Registered office** | Civic Centre | |
| | Patmore Road | |
| | ORKNEY | |
| | 2620 | |
| **Business address** | 1 | |
| | 1 | |
| | 1 | |
| | 1 | |
| | 1 | |
| **Postal address** | 1 | |
| | 1 | |
| | 1 | |
| | 1 | |
| | 1 | |
| **Bankers** | 1 | |
| | 1 | |
| **Auditors** | 1 | |
| | 1 | |
| **Secretary** | 1 | |

## General Information

| | |
|---|---|
| **Attorneys** | 1 |
| | 1 |

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**Abbreviations**

| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

# Certification by Municipal Manager

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 5 to 71, in terms of Section 126(1) of the Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of councilors as disclosed in note 24 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, No 20 of 1998 and the Minister of Cooperative Governance and Ttraditional Affairs determination in accordance with this Act.

**Accounting Officer**

# Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

**1. Review of activities**

**Main business and operations**

The municipality is engaged in service delivery and operates principally in South Africa.

The operating results for the year were satisfactory. The financial position of the municipality is stable.

Net surplus of the municipality was R 17 112 133 (2011: profit R 9 772 108).

**2. Going concern**

We draw attention to the fact that at 30 June 2012, the municipality's total assets exceeds its liabilities by R 192 508 053.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

**3. Accounting policies**

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

# Statement of Financial Position

| Figures in Rand | Note(s) | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Receivables from exchange transactions | 10 | 1 846 324 | 5 420 131 |
| VAT receivable | 11 | 2 817 118 | 4 313 000 |
| Cash and cash equivalents | 12 | 209 503 739 | 176 817 076 |
| | | **214 167 181** | **186 550 207** |
| Non-Current Assets | | | |
| Property, plant and equipment | 2 | 11 818 362 | 13 523 294 |
| Intangible assets | 3 | 215 152 | 452 409 |
| Investments | 5 | 34 678 | 26 732 |
| | | **12 068 192** | **14 002 435** |
| Non-current assets held for sale | | 230 000 | 319 082 |
| Less: Impairment | | (136 000) | (89 082) |
| **Net: Non -current assets held for sale** | | **94 000** | **230 000** |
| Non-Current Assets | | 12 068 192 | 14 002 435 |
| Current Assets | | 214 167 181 | 186 550 207 |
| Non-current assets held for sale | | 94 000 | 230 000 |
| **Total Assets** | | **226 329 373** | **200 782 642** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 15 | 166 723 | 121 380 |
| Operating lease liability | 8 | 29 957 | 468 600 |
| Trade and other payables | 19 | 25 267 314 | 18 434 151 |
| Unspent conditional grants and receipts | 16 | 2 930 667 | 2 541 627 |
| Post Retirement Medical Aid benefit | 9 | 104 448 | 61 104 |
| Long Services defined Benefit Plan - Current portion | 18 | 72 195 | 71 023 |
| | | **28 571 304** | **21 697 885** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 15 | 118 548 | 285 271 |
| Post Retirement Medical Aid benefit | 9 | 3 326 602 | 2 240 193 |
| Long Service Awards | 18 | 1 804 866 | 1 163 372 |
| | | **5 250 016** | **3 688 836** |
| Non-Current Liabilities | | 5 250 016 | 3 688 836 |
| Current Liabilities | | 28 571 304 | 21 697 885 |
| Liabilities of disposal groups | | - | - |
| **Total Liabilities** | | **33 821 320** | **25 386 721** |
| Assets | | 226 329 373 | 200 782 642 |
| Liabilities | | (33 821 320) | (25 386 721) |
| **Net Assets** | | **192 508 053** | **175 395 921** |
| **Net Assets** | | | |
| Accumulated surplus | | 192 508 053 | 175 395 921 |
| **Total Net Assets** | | **192 508 053** | **175 395 921** |

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2012 | 2011 |
|---|---|---|---|
| **Revenue** | | | |
| Government grants & subsidies | 22 | 156 159 085 | 152 670 140 |
| Other income | 23 | 246 386 | 1 271 056 |
| Interest received - investment | 27 | 11 904 088 | 11 201 891 |
| Dividends received | 27 | 1 261 | 1 116 |
| **Total Revenue** | | **168 310 820** | **165 144 203** |
| **Expenditure** | | | |
| Personnel | 25 | (44 161 194) | (43 336 269) |
| Remuneration of councilors | 26 | (6 845 932) | (6 223 474) |
| Depreciation, impairment and amortisation | 28 | (2 854 931) | (2 417 559) |
| Finance costs | 29 | (695 519) | (896 605) |
| Debt impairment | | (1 261 024) | (95 454) |
| Repairs and maintenance | | (704 170) | (1 021 558) |
| Contracted services | | (1 514 891) | (2 096 797) |
| Grants and subsidies paid | 32 | (67 044 818) | (66 608 316) |
| Contributions to Leave Reserve | | (1 945 995) | - |
| Loss on disposal of assets | 32 | - | (9 404 504) |
| General Expenses | 24 | (24 170 213) | (23 271 558) |
| **Total Expenditure** | | **(151 198 687)** | **(155 372 094)** |
| | | - | - |
| **Surplus for the year** | | **17 112 133** | **9 772 109** |

## Statement of Changes in Net Assets

| Figures in Rand | | | | | Accumulated Surplus / (Deficit) |
|---|---|---|---|---|---|
| Opening balance as previously reported | | | | | 165 428 982 |
| Adjustments | | | | | |
| Change in accounting policy | - | - | - | 350 208 | 350 208 |
| Prior year adjustments | | | | | (155 377) |
| **Balance at 01 July 2010 as restated** | | | | | **165 623 813** |
| Surplus for the year | | | | | 9 772 108 |
| Total changes | | | | | 9 772 108 |
| **Balance at 01 July 2011** | | | | | **175 395 921** |
| Surplus for the year | | | | | 17 112 132 |
| Total changes | | | | | 17 112 132 |
| **Balance at 30 June 2012** | | | | | **192 508 053** |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 158 966 427 | 149 888 108 |
| Interest income | | 11 904 088 | 11 201 891 |
| Dividends received | | 1 261 | 1 116 |
| | | 170 871 776 | 161 091 115 |
| **Payments** | | | |
| Suppliers | | (136 591 474) | (137 881 708) |
| Finance costs | | (695 519) | (896 605) |
| | | (137 286 993) | (138 778 313) |
| Total receipts | | 170 871 776 | 161 091 115 |
| Total payments | | (137 286 993) | (138 778 313) |
| **Net cash flows from operating activities** | 33 | **33 584 783** | **22 312 802** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 2 | (655 488) | (1 246 220) |
| Purchase of other intangible assets | 3 | (121 253) | (2 856) |
| **Net cash flows from investing activities** | | **(776 741)** | **(1 249 076)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (121 380) | (67 040) |
| **Net increase/(decrease) in cash and cash equivalents** | | **32 686 662** | **20 996 686** |
| Cash and cash equivalents at the beginning of the year | | 176 817 077 | 155 820 390 |
| **Cash and cash equivalents at the end of the year** | 12 | **209 503 739** | **176 817 076** |

# Accounting Policies

### 1.1. Basis of Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 ( Act NO 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

1.1.1 These accounting policies are consistent with the previous period, except for the changes in Accounting Policy set out in note 3.1.1
1.1.2 Critical Judgement,estimations and assumptions is set out in note 2.1.1

### 2.1 Consolidation

**Investment in associates**

An associate is an entity over which the controlling entity has significant influence and which is neither a controlled entity nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with Standard of GRAP on Non-current Assets Held-For-Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the municipality's share of net assets of the associate, less any impairment losses.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the municipality’s share of net assets of the investee. The surplus or deficit of the municipality includes the municipality’s share of the surplus or deficit of the investee.

The municipality’s share of the surplus or deficit of the investee is recognised in surplus or deficit.

Distributions received from an investee reduce the carrying amount of the investment.

The most recent available annual financial statements of the associate are used by the municipality in applying the equity method. When the reporting date's of the municipality and the associate are different, the associate prepares, for the use of the municipality, annual financial statements as of the same date as the annual financial statements of the municipality unless it is impractical to do so.

When the annual financial statements of an associate used in applying the equity method are prepared as of a different reporting date from that of the municipality, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the municipality’s annual financial statements. In any case, the difference between the reporting date of the associate and that of the municipality is more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period.

The municipality’s annual financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.

Deficits in an associate in excess of the municipality's interest in that associate are recognised only to the extent that the municipality has incurred a legal or constructive obligation to make payments on behalf of the associate. If the associate subsequently reports surpluses, the municipality resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in surplus or deficit.

Surpluses and deficits on transactions between the municipality and an associate are eliminated to the extent of the municipality's interest therein.

The controlling entity discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and account for the investment in accordance with the Standard of GRAP on Financial Instruments. Recognition and Measurement from that date, unless the associate becomes a controlled entity or a joint venture, in which case it is accounted for as such. The carrying amount of the investment at the date that it ceases to be an associate is regarded as its cost on initial measurement as a financial asset in accordance with the Standard of GRAP on Financial Instruments: Recognition and Measurement

### 2.1.1 Critical judgements, estimation and assumptions

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality’s Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

**Revenue Recognition**

# Accounting Policies

**Critical judgements, estimation and assumptions (continued)**

Accounting Policy 10.2 on Revenue from Exchange Transactions and Accounting Policy 10.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

**Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 2.4.1 on Financial Assets Classification and on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: Financial Instruments - Presentation and IAS 39: Financial Instruments - Recognition and Measurement.

**Usefull life of Property, Plant and Equipment,Intangible assets**

As described in Accounting Policies 2.2.1 and 2.2.2.1 the municipality depreciates / amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

**Impairment of financial assets**

Accounting Policy 6.4 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: Financial Instruments - Recognition and Measurement , and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.
The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

# Accounting Policies

**Critical judgements, estimation and assumptions (continued)**

**Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

**2.2.1 Property, plant and equipment**

**Initial Recognition**
Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.
The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.
Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.
When significant components of an item of property, plan and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.
Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.
The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.
Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**Subsequent Measurement**
Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequently all property plant and equipment, including for Infrastructure Assets, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.
Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

**Depreciation**
Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end.

# Accounting Policies

### 2.2.1 Property, plant and equipment (continued)

Any increase in the carrying amount of land and buildings, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

The useful lives of items of property, plant and equipment have been assessed as follows:

| **Item** | **Average useful life** |
|---|---|
| Buildings | 30 Years |
| Furniture and fixtures | 7-10 Years |
| Motor vehicles | 4-7 Years |
| Office equipment | 3-7 Years |
| IT equipment | 3-5 Years |
| Mini bus | 9 Years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Depreciation only commences when the asset is available for use, unless stated otherwise.

**Derecognition of property, plant and** Equipment
Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

**Finance leases**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.
**Derecognition of property, plant and Equipment.**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal .The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue
Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

# Accounting Policies

**Impairment of assets**

**Impairment of Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.
If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.
If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.
The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.
If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.
"An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset."
An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.
A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.
The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.
A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.
**Impairment of Non -Cash generating assets.**
The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.
If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.
The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the assets remaining service potential.
If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.
An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.
An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.
A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.
The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.
A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.
The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.
Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.
The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.
Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

## Accounting Policies

### 2.2.2.1 Intangible assets

**Initial Recognition**

Identifiable non–monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:
- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.
"Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up."

**Subsequent Measurement, Amortisation and Impairment**
After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| **Item** | **Useful life** |
|---|---|
| Computer software, other | 2 Years |

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

## Accounting Policies

**2.3.1 Investments in controlled entities**

**Initial measurement**
An controlled  entity is an entity over which the municipality as the investor is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee and which is neither a controlled entity nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.
The municipality commences accounting for an investment in an associate from the date that significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate.  The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year

The municipality uses the most recent available financial statements of the controlled entity in applying the equity method. The equity method involves recognising the investment initially at cost, then adjusting for any change in the investor's share of net assets of the associate since it acquired it. A single line-item in the Statement of Financial Performance presents the investor's share of the associate's surplus or deficit for the year. The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/ (deficits) less any dividends received.

Where the reporting periods of the controlled entity and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

Where the municipality or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Municipality's or its Municipal Entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred

# Accounting Policies

### 2.4.1 Financial instruments

#### Classification

**Financial Asset - Classification**.
A financial asset is any asset that is a cash or contractual right to receive cash.
In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:
- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:
- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.
For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: available for sale
The municipality classifies financial assets and financial liabilities into the following categories:
- Investments in Fixed Deposits - Held-to-maturity investment
- Long-term Receivables - Loans and receivables
  Trade and other receivables - Loans and receivables
- Short-term Investment Deposits – Call - Available-for-sale financial assets
- Bank Balances and Cash - Available-for-sale financial assets

**Financial Liabilities - Classification** .
A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Finance lease obligations
Operating lease liability
Certain Other Payables (see note 19)
Employees medical aid benefits liability
Current Portion of Long-term Liabilities

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured at:
(i) Fair value through profit or loss; or
(ii) Other financial liabilities (Financial liabilities measured at amortised cost)
(iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives
Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09
Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

# Accounting Policies

### 2.4.1 Financial instruments (continued)

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument
The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Subsequent measurement

**Financial assets:**
Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.
Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

"Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to group entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables."

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

**Financial liabilities** that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, noninterest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise. Prepayments are carried at cost less any accumulated impairment losses.

**Derecognition of financial assets**: The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received

**Derocgnition of financial liabilities**:The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire. The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

**2.4.1 Financial instruments (continued)**

**Fair value methods and assumptions**

The fair values of financial instruments are determined as follows:
The fair values of quoted investments are based on current bid prices.
If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques.
These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**The effective interest rate method**

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interes income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial  asset or financial liability

**Amortised cost**

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

# Accounting Policies

### 2.4.1 Financial instruments (continued)

**Impairment of financial assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

**Available-for-sale financial assets**
"When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance." Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

**Financial assets carried at amortised cost**
Accounts receivables encompasses long term debtors, consumer debtors and other debtors.
Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

# Accounting Policies

**2.4.1 Financial instruments (continued)**

**Receivables from exchange transactions**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.
Trade and other receivables are classified as loans and receivables.

**Payables from exchange transactions**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

**Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.
At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

**Financial liabilities and equity instruments**

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

**Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit,
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit, and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

## Accounting Policies

**2.5.1 Leases**

**Lease Classification:** A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

**2.5.1 Leases (continued)**

**The Municipality as lessee**

**Finance leases:** Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term. are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**2.5.2.1 Non-current assets held for sale**

**Initial measurement:** Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**Subsequent measurement:** Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.
The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

**2.6.1 Employee benefits**

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted. The municipality treats its provision for leave as an accrual.The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.
**Post employment benefits**: The municipality provides retirement benefits for its employees and councillors and has both defined benefits and defined contribution post employment plans.

### 2.6.1 Employee benefits (continued)

**Defined contribution plans**

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.
The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available..

**Post retirement health care benefits**
The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees.
The entitlement to post retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover this liability.

**Long service awards**
The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-serviceAllowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a
cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the longterm incentives are accounted for through the statement of financial performance.

**Defined benefit plans**

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date. Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance, as well as past-service costs are recognised immediately in the Statement of Financial Performance.

# Accounting Policies

### 2.7.1 GRAP 19: Provisions,Contingent liabilities and Assets

Provisions are recognised when:
- the municipality has a present or constructive obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation
The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision.
Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

### 2.8.1 Revenue from exchange transactions

#### General

Revenue, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities’ activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

## Accounting Policies

### 2.8.1 Revenue from exchange transactions (continued)

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been met:
- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Dividends**

The substance of the relevant agreement, where applicable. Dividends received on Sanlam shares

**Finance Income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

"Interest earned on the following investments is not recognised in the Statement of Financial Performance:
- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder."

### 2.8.2.1 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.
An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.
A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

**Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**
Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain. Such revenue is based on legislated procedures.

## Accounting Policies

**Government grants**

Equitable share allocations are recognised revenue at the start of the financial year if no time-based restrictions exist.
**Conditional Grants and receipts.**
Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

"Government grants and conditional receipts are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant."

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

**2.9.1 Investment income**

Investment income is recognised on a time-proportion basis using the effective interest method.

**2.10.1 Comparative figures**

**Current year omparatives**
Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and forms part of the Annual Financial Statements.
**Prior year comparatives**
When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.
**Budget information**
The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

**2.11.1 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**2.11.2 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

## Accounting Policies

**2.11.3 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

**2.12.1 Use of Estimates**

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

**2.13.1 Offsetting**

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements.

# Accounting Policies

### 2.14.1 Statutory Funds and Reserves

Included in the accumulated surplus are the following reserves:

**Capital replacement reserve (CRR)**

In order to finance the future provision of infrastructure and other items of property, plant and equipment from internal sources amounts are transferred out of the accumulated surplus/(deficit) into the Capital Replacement Reserve (CRR) in terms of a Council resolution. The cash allocated to the CRR can only be utilised to finance items of property, plant and equipment. The following provisions are set for the creation and utilisation of the CRR:

"• The cash which backs up the CRR is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the municipality.
• Interest earned on the CRR investment is recorded as part of total interest earned in the Statement of Financial Performance.
• The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and may not be used for the maintenance of these items.
• The CRR is reduced and the accumulated surplus/(deficit) credited with corresponding amounts when the funds are utilised.
• The amounts transferred to the CRR are based on the Municipality's need to finance future capital projects.
• The Council determines the annual contribution to the CRR.
• If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue

**Government grant reserve**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Government Grants.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

### 2.15.1 IPSAS 20 - Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 2.16.1 Value Added Tax

The Municipality is registered with SARS for VAT on the payment basis , in accordance with the Sec15(2)(a) of the Value-Added Tax Act no 89 of 1991.

# Accounting Policies

### 2.17.1 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following
cases:
- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancelable or only cancelable at significant cost contracts should relate to something other than the business of the municipality

### 3.1.1. Changes in accounting policy, estimates and errors

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

### 3.1.2. New standards and interpretations

### 3.2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the mentioned standards and interpretations that are effective for the current financial year and that are relevant to its operations:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue | 01 April 2011 | Minimum impact |
| • IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities | 01 April 2011 | Minimum impact |
| • IGRAP 3: Determining Whether an Arrangement Contains a Lease | 01 April 2011 | Minimum impact |
| • IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | 01 April 2011 | Minimum impact |
| • IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies | 01 April 2011 | Minimum impact |
| • IGRAP 6: Loyalty Programmes | 01 April 2011 | Minimum impact |
| • IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions | 01 April 2011 | Minimum impact |
| • IGRAP 9: Distributions of Non-cash Assets to Owners | 01 April 2011 | Minimum impact |
| • IGRAP 10: Assets Received from Customers | 01 April 2011 | Minimum impact |
| • IGRAP 13: Operating Leases – Incentives | 01 April 2011 | Minimum impact |
| • IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease | 01 April 2011 | Minimum impact |
| • IGRAP 15: Revenue – Barter Transactions Involving Advertising Services | 01 April 2011 | Minimum impact |
| • GRAP 1 (as revised 2010): Presentation of Financial Statements | 01 April 2011 | Minimum impact |
| • GRAP 2 (as revised 2010): Cash Flow Statements | 01 April 2011 | Minimum impact |
| • GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors | 01 April 2011 | Minimum impact |
| • GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates | 01 April 2011 | Minimum impact |
| • GRAP 9 (as revised 2010): Revenue from Exchange Transactions | 01 April 2011 | Minimum impact |

**3.1.2. New standards and interpretations (continued)**

| | | |
|---|---|---|
| • GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies | 01 April 2011 | Minimum impact |
| • GRAP 11 (as revised 2010): Construction Contracts | 01 April 2011 | Minimum impact |
| • GRAP 12 (as revised 2010): Inventories | 01 April 2011 | Minimum impact |
| • GRAP 13 (as revised 2010): Leases | 01 April 2011 | Minimum impact |
| • GRAP 14 (as revised 2010): Events After the Reporting Date | 01 April 2011 | Minimum impact |
| • GRAP 16 (as revised 2010): Investment Property | 01 April 2011 | Minimum impact |
| • GRAP 17 (as revised 2010): Property, Plant and Equipment | 01 April 2011 | Minimum impact |
| • GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets | 01 April 2011 | Minimum impact |
| • GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations | 01 April 2011 | Minimum impact |
| • GRAP102: Intangible Assets | 01 April 2011 | Minimum impact |
| • GRAP 6: Consolidated Financial Statements | 01 April 2011 | Minimum impact |
| • GRAP 7: Investments in Associates | 01 April 2011 | Minimum impact |

**3.2.1 Standards and interpretations issued, but not yet effective**

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

| **Standard/ Interpretation:** | **Effective date: Years beginning on or after** | **Expected impact:** |
|---|---|---|
| • GRAP 18: Segment Reporting | 01 April 2013 | Meduim impact |
| • GRAP 23: Revenue from Non-exchange Transactions | 01 April 2012 | Minimum impact |
| • GRAP 24: Presentation of Budget Information in the Financial Statements | 01 April 2012 | Minimum impact |
| • GRAP 103: Heritage Assets | 01 April 2012 | |
| • GRAP 21: Impairment of non-cash-generating assets | 01 April 2012 | Minimum impact |
| • GRAP 26: Impairment of cash-generating assets | 01 April 2012 | Minimum impact |
| • GRAP 25: Employee benefits | 01 April 2013 | Minimum impact |
| • GRAP 104: Financial Instruments | 01 April 2012 | Minimum impact |
| • GRAP 20: Related Party Disclosures (Revised) | 01 April 2012 | Minimum impact |
| • GRAP 105: Transfers between entities under • common control | 01 April 2012 | Minimum impact |
| • GRAP 106: Transfers between entities not under common control | 01 April 2012 | Minimum impact |
| • GRAP 107: Mergers | 01 April 2012 | Minimum impact |

Where no effective dates have been indicated for the GRAP standars issued but not effective the relevant standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 2. Property, plant and equipment

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land and Buildings | 5 529 601 | (1 126 208) | 4 403 393 | 5 433 699 | (940 808) | 4 492 891 |
| Furniture and fittings | 3 347 625 | (1 407 404) | 1 940 221 | 3 235 780 | (740 134) | 2 495 646 |
| Motor vehicles | 5 078 788 | (1 389 463) | 3 689 325 | 5 078 787 | (824 697) | 4 254 090 |
| Office equipment | 1 870 876 | (914 985) | 955 891 | 1 665 854 | (418 029) | 1 247 825 |
| Computer Equipment | 1 253 048 | (729 269) | 523 779 | 1 024 898 | (406 605) | 618 293 |
| Community | 10 926 | (8 858) | 2 068 | 10 926 | (5 917) | 5 009 |
| Other property, plant and equipment | 632 358 | (328 673) | 303 685 | 617 788 | (208 248) | 409 540 |
| **Total** | **17 723 222** | **(5 904 860)** | **11 818 362** | **17 067 732** | **(3 544 438)** | **13 523 294** |

The carrying value of motor vehicles as at 30 June 2011 increased with an amount of R 44,233 due to take on assets not previously recognised (Refer to note 37)

**Reconciliation of property, plant and equipment - 2012**

| | **Opening balance** | **Additions** | **Depreciation** | **Total** |
|---|---|---|---|---|
| Land and Buildings | 4 492 891 | 95 902 | (185 400) | 4 403 393 |
| Furniture and fixtures | 2 495 646 | 111 846 | (667 271) | 1 940 221 |
| Motor vehicles | 4 254 091 | - | (564 766) | 3 689 325 |
| Office equipment | 1 247 825 | 205 021 | (496 955) | 955 891 |
| Computer Equipment | 618 293 | 228 149 | (322 663) | 523 779 |
| Community | 5 009 | - | (2 941) | 2 068 |
| Other property, plant and equipment | 409 540 | 14 570 | (120 425) | 303 685 |
| | **13 523 295** | **655 488** | **(2 360 421)** | **11 818 362** |

**Reconciliation of property, plant and equipment - 2011**

| | **Opening balance** | **Additions** | **Disposals / write - offs** | **Depreciation write - offs** | **Depreciation** | **Total** |
|---|---|---|---|---|---|---|
| Land and Buildings | 13 590 143 | 103 699 | (10 839 106) | 1 794 363 | (156 208) | 4 492 891 |
| Furniture and fixtures | 2 883 370 | 92 383 | (26 666) | 11 597 | (465 038) | 2 495 646 |
| Motor vehicles | 4 435 208 | 788 096 | (868 207) | 407 982 | (508 988) | 4 254 091 |
| Office equipment | 966 917 | 594 601 | (4 185) | 158 | (309 666) | 1 247 825 |
| Computer equipment | 800 126 | 120 109 | (66 339) | 44 532 | (280 135) | 618 293 |
| Community Assets | 7 269 | 920 | (360) | 81 | (2 901) | 5 009 |
| Other property, plant and equipment | 498 341 | 20 103 | - | - | (108 904) | 409 540 |
| | **23 181 374** | **1 719 911** | **(11 804 863)** | **2 258 713** | **(1 831 840)** | **13 523 295** |

**Pledged as security**

No carrying value of assets was pledged as security for liabilities:

**Assets subject to finance lease (Net carrying amount)**

| | | |
|---|---|---|
| Samsung DSC PABX System | 236 750 | 386 276 |
| | **236 750** | **386 276** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

**2. Property, plant and equipment (continued)**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

**3. Intangible assets**

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software, other | 1 470 712 | (1 255 560) | 215 152 | 1 389 117 | (936 708) | 452 409 |
| **Total** | **1 470 712** | **(1 255 560)** | **215 152** | **1 389 117** | **(936 708)** | **452 409** |

**Reconciliation of intangible assets - 2012**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 452 409 | 121 253 | (358 510) | 215 152 |
| | **452 409** | **121 253** | **(358 510)** | **215 152** |

**Reconciliation of intangible assets - 2011**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software, other | 946 191 | 2 856 | (496 638) | 452 409 |
| | **946 191** | **2 856** | **(496 638)** | **452 409** |

**Pledged as security**

No Carrying value of intangible assets pledged as security:

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 4. Investments in controlled entities

| Name of company | Listed / Unlisted | % holding 2012 | % holding 2011 | Fair value 2012 | Fair value 2011 |
|---|---|---|---|---|---|
| Dr Kenneth Kaunda District Economic Development Agency | Unlisted | 100,00 % | 100,00 % | (889 693) | 120 |

The municipality has a 100% holding in the Dr Kenneth Kaunda District Municipality Economic Agency. The carrying value and fair value is determined by the office of PriceWaterhouseCoopers 10 Rykstr Welkom. The cost price of the investment is nul.

### 5. Investments

| | 2012 | 2011 |
|---|---|---|
| **Available-for-sale** | | |
| Listed shares | 34 678 | 26 732 |
| Sanlam shares (970 shares with a share price of R 35.75 ( 2011: R27.56)). | | |
| Listed shares are investments in shares of public companies with no specific maturity dates or interest rates. | | |
| | **34 678** | **26 732** |
| **Non-current assets** | | |
| Available-for-sale | 34 678 | 26 732 |
| | **34 678** | **26 732** |

The maximum exposure to credit risk at the reporting date is the carrying amount of the held to maturity financial assets.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Call deposits are investments with a maturity period of less than 12 months and earn interest at rates varying from 5,50% to 5,60% per anum.
Deposits of R4,599,800 ( 2011:R 5,688,730) are ring - fenced and attributable to the capital replacement reserve. (CRR)
Deposits of R2,930,667 ( 2011:R 2,541,628) are ring - fenced and attributable to unspent conditional grants and receipts.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

**5. Investments (continued)**

**Loans and receivables impaired**

No loans and recievables were impaired during the year under review
The amount of the provision was R (3 500) as at 30 June 2012 (2011: R (6 500)).

The ageing of these loans is as follows.

| | | |
|---|---|---|
| Over 6 months | 3 500 | 6 500 |

**Reconciliation of provision for impairment of loans and receivables**

| | | |
|---|---|---|
| Opening balance | (6 500) | (9 500) |
| Unused amounts reversed | 3 000 | 3 000 |
| **Provision for impairment** | **(3 500)** | **(6 500)** |

The creation and release of provision for impairment receivables have been included in operating expenses in surplus or deficit. Amounts are generally written off when there is no expectation of recovering the cash.

The maximum exposure to credit risk at the reporting date is carrying value of each class of loan mentioned above. The municipality does not hold any collateral as security.

**6. Summary of Long-term Receivables**

| | | |
|---|---|---|
| Study loans<br>Study loans approved to children of employees before implementation of MFMA | 3 500 | 6 500 |
| Total Long -Term Receivables | 3 500 | 6 500 |
| Less:Impairment of Long -Term Receivables | (3 500) | (6 500) |
| **Total Long- Term Receivables** | **-** | **-** |

Study loans are classified as Long term receivables as it will not be realised within 12 months of balance sheet date.

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

**2012**

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| Receivables from exchange transactions | 1 846 324 | - | 1 846 324 |
| Cash and cash equivalents | - | 209 503 739 | 209 503 739 |
| VAT receivables | 2 817 118 | - | 2 817 118 |
| Listed investments | - | 34 678 | 34 678 |
| | **4 663 442** | **209 538 417** | **214 201 859** |

**2011**

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| Receivables from exchange transactions | 5 420 131 | - | 5 420 131 |
| Cash and cash equivalents | - | 176 817 076 | 176 817 076 |
| VAT receivables | 4 313 000 | - | 4 313 000 |
| Listed investments | - | 26 733 | 26 733 |
| | **9 733 131** | **176 843 809** | **186 576 940** |

### 8. Operating leases

| | 2012 | 2011 |
|---|---|---|
| Current liabilities | 29 957 | 468 600 |
| **Total Current Liabilities** | **29 957** | **468 600** |

This amount represent the the current lease liability with regards to on the leases entered into with Morubisi Technologies for CCTV surveilance services, and Old Mutual for the lease of office buildings.

### 9. Employee benefit obligations

**Post retirement medical aid benefit liability**

| | 2012 | 2011 |
|---|---|---|
| Post-Employment Health Care Benefit Liability | 3 431 049 | 2 301 297 |
| **Total: Post-Employment Health Care Benefit Liability** | **3 431 049** | **2 301 297** |
| Less: Transfer to current provisions | (104 447) | (61 104) |
| **Net Post-Employment Health Care Benefit Liability** | **3 326 602** | **2 240 193** |

**Post retirement medical aid plan**

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee. The Municipality operates an unfunded defined benefit plan for these qualifying employees.
The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2012 by ARCH Actuarial Consulting, a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other post retirement benefits are provided by the municipality.

The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

| **Member category** | 2012 | 2011 |
|---|---|---|
| In-service (employee) members | 3 | 4 |
| Continuation (retiree and widow) members | 4 | 3 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 9. Employee benefit obligations (continued)

| | | |
|---|---|---|
| | **7** | **7** |

The change in the in -service members from 92 to 4 is due to post retirement medical aid changes in legislation since 2007 that was given to Arch Consulting for the actuarial valuation in 2010-2011

The unfunded liability in respect of past service has been estimated to be as follows:

| **Member category** | | |
|---|---|---|
| In-service members | 1 439 341 | 1 205 470 |
| Continuation members | 1 991 708 | 1 095 827 |
| | **3 431 049** | **2 301 297** |

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes
- Bonitas
- Hosmed
- LA Health
- Key Health
- Samwumed:

The future service cost for the ensuing year is established to be R 81,252, whereas the interest-cost for the next year is estimated to be R 253,537

| **The principal assumptions used for the purposes of the actuarial valuations were as follows:** | | |
|---|---|---|
| Discount rate % | 7,50 | 8,50 |
| Health Care Cost Inflation Rate % | 6,57 | 7,12 |
| Net Effective Discount Rate % | 0,87 | 1,29 |
| Continuation of membership at retirement | 90% | 90% |
| Proportion assumed married at retirement | 90% | 90% |
| Average retirement age | 63 | 63 |

| **The movement in the defined benefit obligation over the year is as follows:** | | |
|---|---|---|
| Balance at the beginning of the year | 2 301 297 | 2 638 153 |
| Current service cost | 80 156 | 81 381 |
| Interest cost | 193 151 | 233 790 |
| Benefits paid | (61 104) | (87 600) |
| Actuarial loss/(gain) on the obligation | 917 549 | (564 427) |
| **Balance at end of year** | **3 431 049** | **2 301 297** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 9. Employee benefit obligations (continued)

The total liability has increased by 49% (or R 1,130 million) since the last valuation. The main reasons for this movement are set out below.
***In-service members***
The average in-service member liability has increased by 59% over the year due to the following factors:
A significant increase in the average future employer contribution; an increase in the average age; a decrease in the net discount rate. The total in-service member liability has also increased by 19% due to the above combined with the fact that there is one fewer in -service member, who retired since the last valuation.
***Continuation members***
The average continuation member liability has increased by 36% due to an increase in the average employer contribution and a decrease in the net discount rate, partly offset by an increase in the average age.
The total continuation member liability has increased by 82% due to that one continuation member who was previously modelled as a child member is now included as a continuation member, and because of the addition of one continuation member since the last valuation.
The table below indicates, for example, that if health care inflation is 1% greater than the long-term assumption made, the liability will be 13% higher than that shown.The effect of a 1 % movement in the assumed rate of health care cost inflation is as follows:

| | | |
|---|---|---|
| **Increase of 1%** | | |
| Effect on the aggregate of the current service cost and the interest cost | 38 393 | 38 300 |
| | **38 393** | **38 300** |
| **Decrease of 1%** | | |
| Effect on the aggregate of the current service cost and the interest cost | (32 507) | (32 600) |
| | **(32 507)** | **(32 600)** |

**Multi-Employer Pension Scheme Arrangements**

The personnel of the Dr Kenneth Kaunda District Municipality are members of the funds as set out below.The relevant law requires every fund to do an actuarial valuation at least every three years.Sufficient information is not available to make more detailed disclosures.

**Municipal Councilors Pension fund.** The Municipal Councilors Pension Fund operates as a defined contribution scheme. The scheme is subject to an actuarial valuation every three years. The latest statutory valuation ws performed as at 30 June 2009, and the latest interim valuation was performed as at 30 June 2010, and was reported to be in a sound financial position. The interim valuation performed as at 30 June 2010 revealed that the fund had assets to the amount of R 1, 483,786,381( 30 June 2009: R1,123,672,020). The contribution rate paid by the members (13,75 %) and council (15 %) is sufficient to fund the benefits accruing from the fund in the future.

**Municipal Gratuity Fund.** The defined benefit scheme is a multi-employer plan and the contribution rate payable is 9 %, by the members and 22 % by Council. The last valuation performed for the year ended 30 June 2010 revealed that the fund had assets of R 9,774,174 million and in a sound financial state as at 30 June 2010.

**Municipal Employees Pension Fund.** The contribution rate payable is 7,5 % by the members 22 % by Council. The last Actuarial valuation on this fund was performed in February 2008 certified that the fund is in a sound financial state. The total assets amounts to R 5715,557 million and liabilities to R4,900,548 million.

**SAMWU Provident Fund.** The contribution rate payable is 7,5 % by the members 22 % by Council. The last actuarial valuation on this fund was performed for the year ended 30 June 2007 certified that the fund is in a sound financial state. . The total assets amounts to R2,764,426 million.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 9. Employee benefit obligations (continued)

**National Fund for Municipal workers.** The above mentioned fund is a defined contribution Fund and according to Regulation 2 of the Pension Funds Act no 24 of 1956 exempt from the provisions of sections 9A and 16 of the Act. The contribution rate paid by the members is 9 % and by the council is 22 %. The latest voluntary valuation was done on 30 June 2009 (30 June 2008). As at 30 June 2008 the results state that the way the benefits are structured in the rules, the fund is limited to an amount equal to the accumulation of all the contributions plus investment returns less administration costs. The NFMW Retirement Fund does not have any reserve accounts or surpluses which could be allocated to members Fund. The total assets amounts to R 3,633,119 as at 30 June 2009

**Defined Contribution (DC) Multi-Employers Pension scheme**

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered] GRAP 25 paragraph .55 correspons to IAS 19 Paragraph 53 which required disclosure of the amount recognised as an expense in the current financial year.

The municipality is under no obligation to cover any unfunded benefits.

| | | |
|---|---|---|
| Municipal Councillors Pension Fund - No of members of this fund: 12 (2011: 4) | 475 697 | 482 592 |
| Municipal Gratuity Fund - No of members of this fund: 57 (2011: 67) | 2 627 465 | 2 643 456 |
| National Fund for Mun. Workers - No of members of this fund: 21 (2011: 12) | 750 862 | 496 481 |
| Samwu Provident Fund - No of members of this fund: 2 (2011: 5) | 123 209 | 114 082 |
| The amount recognised as an expense for defined contribution plans is | 3 977 233 | 3 736 611 |

**Defined Contribution (DB) Multi-Employers Pension scheme**

Paragraph 31 of GRAP 25 corresponds to paragraph 34 and 148(d) of IAS 19 (2011) outline disclosure of a plan which is a Multi-Employer Funds and is a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account full DB accounting disclosure. The reason why sufficient information is not available to enable the municipality to account for the plan as a defined benefit plan is that the scheme assets are held as one portfolio and not notionally allocated to each particpating employer, The scheme 's financial statements is not constructed seperately for each particpating employer and contribution rates do not vary by participating employer.

| | | |
|---|---|---|
| Municipal Employee Pension Fund - No of members of this fund: 12 (2011: 27) | 1 168 981 | 1 209 902 |
| The amount recognised as an expense for defined contribution plans is | 1 168 981 | **1 209 902** |

The most recently actuarial available valuation was done at 28/02/2009. The funding level of the fund is at 102.2% The basis key assumptions are as follow: Gross discount rate 11.1%; Salary inflation 7,4%; Net post-ret discount rate 4.4%

The current surplus is relatively small and is not expected to have any impact on the required employer discount rate. The total in-service membership of the MEPF was 15.978 as at 28/02/2009.

### 10. Receivables from exchange transactions

| | | |
|---|---|---|
| Prepayments | 630 240 | 648 141 |
| Fruitless and wasteful expenditure to be investigated | 153 024 | 76 000 |
| Sundry debtors | 2 800 703 | 5 183 187 |
| Control Accounts | - | 17 448 |
| Less: Provision for bad debt | (1 737 643) | (504 645) |
| | **1 846 324** | **5 420 131** |

**Trade and other receivables pledged as security**

The municipality did not pledge any of its recievables as security for borrowing purposes

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 10. Receivables from exchange transactions (continued)

**Other receivables from exchange transactions past due but not impaired**

Trade and other receivables which are less than 1 month past due are not considered to be impaired. Included in sundry debtors is accrued interest on investments as at 30 June 2012, which were past due but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The ageing of debtors past due but not impaired is as follows:

| | | |
|---|---|---|
| 30-60 days past due | 1 216 084 | 5 014 575 |

**Reconciliation of provision for impairment of trade and other receivables**

| | | |
|---|---|---|
| Opening balance | (504 645) | (4 524 517) |
| Provision for impairment | (1 261 024) | (98 454) |
| Amounts written off as uncollectible | 28 026 | - |
| Unused amounts reversed | - | 4 118 326 |
| | **(1 737 643)** | **(504 645)** |

IAS 39 states that short term recievables with no stated interest rate may be measured at original contract value if the effect of the discounting is immaterial. Discounting procedures were performed on accounts receivable to an amount of R 0 (2011: R4,000,000) and the results showed that the effect of discounting amounts to R 0 (2011:R18 250) wich is immaterial. The calculations were based on the rate of 5.50% received on investments.

### 11. VAT receivable

| | | |
|---|---|---|
| VAT | 2 817 118 | 4 313 000 |

VAT is payable on the payment basis. Only once payments are made to creditors VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date

### 12. Cash and cash equivalents

Bank balances and cash equivalents included in the cash flow statement comprise of the following bank statement amounts :

| | | |
|---|---|---|
| Cash on hand | 5 600 | 5 100 |
| Bank balances | 8 080 991 | 15 774 331 |
| Call investment deposits | 201 417 148 | 161 037 645 |
| **Cash and cash equivalents** | **209 503 739** | **176 817 076** |

The Municipality does not have any overdrawn current account facilities with its bankers and therefore does not incur interest on overdrawn accounts. Interest on overdrawn accounts is earned at different rates per annum on favourable balances.

No restrictions have been imposed on the municipality in terms of the utilization of its cash and cash equivalents.

The fair value of current investment deposits, bank balances, cash and cash equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
| --- | --- | --- |

**12. Cash and cash equivalents (continued)**

**Call investment deposits**

Call investment deposits is invested with the following banks :

| | | |
| --- | --- | --- |
| **Held to Maturity** | | |
| Call investment Deposits - ABSA | 51 200 000 | 36 200 000 |
| Call deposits invested in ABSA for a period of 1 to 3 months | | |
| Call investment Deposits - Absa Asset Management | 10 217 148 | 9 837 645 |
| Call deposits invested in Absa Asset Managers for a period of 6 to 12 months | | |
| Call investment Deposits - First National Bank | 25 000 000 | 25 000 000 |
| Call deposits invested in FNB for a period of 1 to 3 months | | |
| Call investment Deposits - Nedbank | 55 000 000 | 45 000 000 |
| Call deposits invested in Nedbank for a period of 1 to 3 months | | |
| Call investment Deposits - Standard Bank | 60 000 000 | 45 000 000 |
| Call deposits invested in Standard Bank for a period of 1 to 3 months | | |
| | **201 417 148** | **161 037 645** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 12. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | **30 June 2012** | **30 June 2011** | **30 June 2010** | **30 June 2012** | **30 June 2011** | **30 June 2010** |
| Current Account (Primary Bank Account ABSA Klerksdorp Account no 950 000 627) | 11 263 167 | 7 719 994 | 5 088 296 | 6 009 855 | 13 724 658 | 3 582 285 |
| Current Account (Local Government Support Grant) ABSA Klerksdorp Account no 405 643 8304 | 1 858 001 | 1 703 465 | 2 120 940 | 1 858 001 | 1 817 381 | 1 772 575 |
| Current Account (Premiers Support Grant) ABSA Klerksdorp Account no 950 000 244 | 2 377 | 582 909 | 540 413 | 2 377 | 88 007 | 655 555 |
| Current Account (Disaster Risk Management grant) ABSA Pretoria Account no 40 7293 0455) | 435 | 2 011 028 | - | 435 | 542 | 316 397 |
| Current Account (Fire Support Grant) ABSA Pretoria Account no 40 7293 0340 | 23 677 | 7 592 239 | - | 23 677 | 23 659 | 1 374 272 |
| Current Account (Merafong Flora) Standard bank Klerksdorp Account no 02 137 020 6) | - | 702 884 | 334 585 | - | - | 532 110 |
| Current Account (Geysdorp plaaslike gebiedsmomitee) ABSA Klerksdorp Account no 9 5014 6036 | 186 646 | 1 276 419 | 1 236 592 | 186 646 | 120 083 | 1 276 360 |
| **Total** | **13 334 303** | **21 588 938** | **9 320 826** | **8 080 991** | **15 774 330** | **9 509 554** |

### 13. Non - current assets held for sale

During the prior financial year, Council made a resolution to dispose of the Executive Mayors's vehicle.The disposal decision was based on the ageing of the asset.

The vehicle was sold on the 11th July 2012. Although council approve the sale of the vehicle on the 5th of Oktober 2010, no sufficient tender price could be obtained and therefore the vehicle was not sold within 12 months after being reclassified as held for sale as required by GRAP 100.

| **Non - Current assets held for sale** | | |
|---|---|---|
| Vehicle at carrying value | 230 000 | 319 082 |
| Less: Impairment | (136 000) | (89 082) |
| | **94 000** | **230 000** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 14. Accumulated surplus

**Ring-fenced internal funds and reserves within accumulated surplus - 2012**

| | Capital replacement reserve | Government grant reserve | Accumulated Surplus / Deficit due to operations | Total |
|---|---|---|---|---|
| Opening balance | (5 688 730) | (20 487) | (169 686 704) | (175 395 921) |
| Surplus /Deficit for the year | - | - | (17 112 133) | (17 112 133) |
| Property, plant and equipment purchases | 1 088 930 | - | (1 088 930) | - |
| Offsetting of depreciation | - | 12 442 | (12 442) | - |
| | **(4 599 800)** | **(8 045)** | **(187 900 209)** | **(192 508 054)** |

**Ring-fenced internal funds and reserves within accumulated surplus - 2011**

| | Capital replacement reserve | Government grant reserve | Accumulated Surplus / Deficit due to operations | Total |
|---|---|---|---|---|
| Restated opening balance | (5 688 730) | (211 816) | (159 723 265) | (165 623 811) |
| Surplus /Deficit for the year | - | - | (9 772 110) | (9 772 110) |
| Offsetting of depreciation | - | 191 329 | (191 329) | - |
| | **(5 688 730)** | **(20 487)** | **(169 686 704)** | **(175 395 921)** |

Accumulated surplus has been restated due to corrections of errors. Refer to note 37 for details of the restatements.

## Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
| --- | --- | --- |

### 15. Finance lease obligation

| | | |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | 196 595 | 170 952 |
| - in second to fifth year inclusive | 124 125 | 320 719 |
| | 320 720 | 491 671 |
| less: future finance charges | (35 448) | (85 020) |
| **Present value of minimum lease payments** | **285 272** | **406 651** |

| | | |
| --- | --- | --- |
| **Present value of minimum lease payments due** | | |
| - within one year | 166 723 | 121 380 |
| - in second to fifth year inclusive | 118 548 | 285 271 |
| | **285 271** | **406 651** |

| | | |
| --- | --- | --- |
| Non-current liabilities | 118 548 | 285 271 |
| Current liabilities | 166 723 | 121 380 |
| | **285 271** | **406 651** |

**Lease of Samsung 7200,7400 and 7070 PABX System**.
The municipality lease a Samsung DSC PABX System. The lease was classified as a finance lease on the following grounds:
1. All risks and rewards are therefore substantially transferred to the municipality.
2. The lease term therefore covers the major part of the asset's economic life
3. The present value of the minimum lease payments approximates the fair value of the Asset

Clause 6 of the " terms of business" states that the item must be insured by the municipality.
The agreement was signed on 24 January 2011 and the period for the lease is 36 months.
The monthly lease amount as per the agreement is R13,408. The cost of the system was determined as R 448,578.

**General description of lease arrangements**
No contingent rent
No restrictions – the lease is for a period of 36 months as from 25 February 2011
The interest rate is 13.95%
15% annual escalation in rent
No stipulation for further leasing
PABX must be insured by the Lessee as from 24January 2011 when agreement was signed.

**Market risk**

The management of the municipality is of the opinion the carrying value of long term liabilities recorded at amortised cost in the annual financial statements approximate their fair values.

The fair value of long term liabilites was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financial institutions.

The municipality does not have an option to purchase the leased Property ,Plant & Equpment at the conclusion of the lease agreements. The municipality's obligation under financial leases are secured by the lessor's title to the leased assets.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 16. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Disaster Management Fund | 600 435 | 542 |
| Finance Management Grant | 709 589 | 997 040 |
| Expanded Public Works Program Grant | 36 000 | - |
| Fire Support Grant | 23 390 | 23 373 |
| Integrated Municipal Monitoring Grant (IMMIS) | 161 394 | 161 394 |
| LED Learnership (Seta) | 86 859 | 92 083 |
| LG Seta Environmental Learnership Grant | 5 078 | - |
| Local Government Support Grant | 1 303 956 | 1 263 336 |
| Premier Support Grant | 2 400 | 2 293 |
| 2010 Soccer world cup grant | 1 566 | 1 566 |
| | **2 930 667** | **2 541 627** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 2 541 627 | 3 240 482 |
| Additions during the year | 3 575 145 | 4 044 554 |
| Income recognition during the year | (2 538 105) | (4 743 409) |
| Transfer back to National Treasury | (648 000) | - |
| | **2 930 667** | **2 541 627** |

The municipality complied with the conditions attached to the grants recieved to the extend of revenue recognised.Unspent grants were cash backed

See note 22 for reconciliation of grants from National/Provincial Government.

### 17. Provisions

**Reconciliation of provisions - 2012**

| | **Opening Balance** | **Additions** | **Utilised during the year** | **Total** |
|---|---|---|---|---|
| Post - employment Health Care Benefits | 61 104 | 104 448 | (61 104) | 104 448 |
| Long - service Awards | 71 023 | 72 195 | (71 023) | 72 195 |
| | **132 127** | **176 643** | **(132 127)** | **176 643** |

**Reconciliation of provisions - 2011**

| | **Opening Balance** | **Additions** | **Utilised during the year** | **Total** |
|---|---|---|---|---|
| Post - employment Health Care Benefits | 87 600 | 60 709 | (87 205) | 61 104 |
| Long - service Awards | 111 346 | 94 947 | (135 270) | 71 023 |
| | **198 946** | **155 656** | **(222 475)** | **132 127** |

Performance bonuses- the outflow is depended on the evaluation of the performance of the managers provided for.

Post - employment health care benefits- the outflow is periodic as and when employees retired from service
Long service awards - the outflow is linked to when employees are due for long service awards.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 18. Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited to his/her vacation leave accrual. The provision represents an litimation of the awards to which employees in the service of the Municipality at 30 June 2012 may become entitled to in future, based on an actuarial valuation performed at that date.
The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2012 by ARCH Actuarial Consulting, a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other long service benefits are provided by the municipality.

| | 2012 | 2011 |
|---|---|---|
| Provision for Long Service Awards | 1 877 061 | 1 234 395 |
| **Total Provision for Long Service Awards** | **1 877 061** | **1 234 395** |
| Less: Transfer to Current Liabilities | (72 195) | (71 023) |
| **Net Long Service Awards liability** | **1 804 866** | **1 163 372** |

| **The principal assumptions used for the purposes of the actuarial valuations were as follows:** | 2012 | 2011 |
|---|---|---|
| Discount rate % | 6,8 | 7,97 |
| Expected Rate of Salary Increase (long-term) % | 5,9 | 6,31 |
| Net Effective Discount Rate % | 0,8 | 1,56 |
| Expected Retirement Age | 6 | 63 |
| Mortality during employment | | |

| **The movement in the long service awards obligation over the year is as follows:** | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | 1 234 395 | 1 038 300 |
| Current service cost | 209 426 | 224 043 |
| Interest cost | 95 551 | 90 107 |
| Benefits paid | (71 023) | (111 346) |
| Actuarial (gain)/loss on the obligation | 408 712 | (6 709) |
| **Balance at end of year** | **1 877 061** | **1 234 395** |

## 19. Trade and other payables

| | 2012 | 2011 |
|---|---|---|
| Trade payables | 16 509 836 | 11 830 391 |
| Levy debtors in advance | - | (528) |
| Retention Creditors | 2 518 398 | 2 144 196 |
| Staff Leave | 4 674 024 | 2 728 029 |
| Control Accounts | 34 153 | 109 |
| Other Creditors | 1 530 903 | 1 731 954 |
| | **25 267 314** | **18 434 151** |

Staff leave accrue to the employees of the municipality an an annual basis, subject to certain conditions. The provision is based on the value of the actual leave days at the reporting date.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 19. Trade and other payables (continued)

### Fair value of trade and other payables

Financial liabilities are measured at amortised cost using the effective interest trate method. A net present value calculation of accounts payable and credit purchases was therefore performed. Because the effect of discounting on accounts payable is not material, the balances disclosed in the note above were not adjusted. The effect of discounting with regards to accounts payable amounted to R219,913 (2011: R 187,926)

The average credit period on purchases is 30 days from receipt of invoice as determined by the MFMA. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the muinicipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit time frame.

## 20. Financial liabilities by category

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows:

**2012**

| | Financial liabilities at amortised cost | Total |
|---|---|---|
| Finance lease obligations | 166 723 | 166 723 |
| Operating lease liability | 29 957 | 29 957 |
| Unspent conditional grants | 2 930 667 | 2 930 667 |
| Trade and other payables | 25 267 314 | 25 267 314 |
| Post retirement medical aid benefit | 104 448 | 104 448 |
| Long service defined benefit plan | 72 195 | 72 195 |
| | **28 571 304** | **28 571 304** |

**2011**

| | Financial liabilities at amortised cost | Total |
|---|---|---|
| Finance lease obligations | 121 380 | 121 380 |
| Operating lease obligations | 468 600 | 468 600 |
| Unspent conditional grants | 2 541 627 | 2 541 627 |
| Trade and other payables | 18 434 151 | 18 434 151 |
| Post retirement medical aid benefit | 61 104 | 61 104 |
| Long service awards | 71 023 | 71 023 |
| | **21 697 885** | **21 697 885** |

## 21. Revenue

| | | |
|---|---|---|
| Government grants & subsidies | 156 159 085 | 152 670 140 |

**The amount included in revenue arising from non-exchange transactions is as follows:**

| | | |
|---|---|---|
| **Transfer revenue** | | |
| Government grants and subsidies | 156 159 085 | 152 670 140 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 22. Government grants and subsidies

| | | |
|---|---|---|
| Equitable share | 23 596 000 | 21 696 000 |
| RSC Levy Replacement Grant | 130 026 000 | 126 231 457 |
| Conditions met - Transfer to Revenue | 2 537 085 | 4 742 683 |
| | **156 159 085** | **152 670 140** |

**Equitable Share**

| | | |
|---|---|---|
| Current year receipts | 23 596 000 | 21 696 000 |
| | **23 596 000** | **21 696 000** |

The grant is unconditional and is utilised to fund operational and capital program

**RSC Levy Replacement Grant**

| | | |
|---|---|---|
| Current year receipts | 130 026 000 | 126 231 457 |
| | **130 026 000** | **126 231 457** |

The grant has replaced the RSC Levies that were collected by Districts and Metropolitan Municipalities. These municipalities receives the grant until National Treasury produce the tax instrument that meets conditions of a "fair" tax. The Grant is utilised to fund the operational and capital program.

**2010 Soccer World Cup Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 566 | - |
| Current-year receipts | - | 850 000 |
| Conditions met - transferred to revenue | - | (848 434) |
| **Conditions still to be met- transferred to liabilities** | **1 566** | **1 566** |

Conditions still to be met - remain liabilities (see note 16)

**Disaster Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 542 | 322 810 |
| Current-year receipts | 600 000 | 1 000 000 |
| Interest earned | 12 | - |
| Conditions met - transferred to revenue | (119) | (1 322 268) |
| **Conditions still to be met- transferred to liabilities** | **600 435** | **542** |

Conditions still to be met - remain liabilities (see note 16)

**LG Seta Environmental Learnership Grant**

| | | |
|---|---|---|
| Current-year receipts | 625 000 | - |
| Conditions met - transferred to revenue | (619 922) | - |
| **Conditions still to be met- transferred to liabilities** | **5 078** | **-** |

**Local Government Support Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 263 336 | 1 218 438 |
| Current-year receipts | 41 422 | 45 550 |
| Conditions met - transferred to revenue | (802) | (652) |
| **Conditions still to be met- transferred to liabilities** | **1 303 956** | **1 263 336** |

Conditions still to be met - remain liabilities (see note 16)

## Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 22. Government grants and subsidies (continued)

**Finance Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 997 040 | 648 264 |
| Current-year receipts | 1 250 000 | 1 000 000 |
| Conditions met - transferred to revenue | (889 451) | (651 224) |
| Transfer back to National Treasury | (648 000) | - |
| **Conditions still to be met- transferred to liabilities** | **709 589** | **997 040** |

Conditions still to be met - remain liabilities (see note 16)

**Integrated Municipal Monitoring Information System (IMMIS)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 161 394 | 161 394 |
| **Conditions still to be met- transferred to liabilities** | **161 394** | **161 394** |

Conditions still to be met - remain liabilities (see note 16)

**Premier Support Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 2 293 | 655 555 |
| Conditions met - transferred to revenue | (88) | (671 377) |
| Interest earned | 195 | 18 115 |
| **Conditions still to be met- transferred to liabilities** | **2 400** | **2 293** |

Conditions still to be met - remain liabilities (see note 16)

**Fire Support Program**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 23 373 | 23 373 |
| Conditions met - transferred to revenue | (11) | - |
| Interest earned | 28 | - |
| **Conditions still to be met- transferred to liabilities** | **23 390** | **23 373** |

Conditions still to be met - remain liabilities (see note 16)

**LED Learnership Seta**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 92 084 | 210 648 |
| Current-year receipts | 232 487 | 130 890 |
| Conditions met - transferred to revenue | (237 712) | (249 454) |
| **Conditions still to be met- transferred to liabilities** | **86 859** | **92 084** |

Conditions still to be met - remain liabilities (see note 16)

**Municipal System Improvement Grant (MSIG)**

| | | |
|---|---|---|
| Current-year receipts | 790 000 | 1 000 000 |
| Conditions met - transferred to revenue | (790 000) | (1 000 000) |
| **Conditions still to be met- transferred to liabilities** | **-** | **-** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
| --- | --- | --- |

**22. Government grants and subsidies (continued)**

**Expanded Public Works Program Grant**

| | | |
| --- | --- | --- |
| Current year receipt | 36 000 | - |

Conditions still to be met - remain liabilities (see note 16)

**23. Other revenue**

| | | |
| --- | --- | --- |
| Commissions received | 18 412 | 20 868 |
| Insurance claims received | 16 383 | 332 535 |
| Reversal of provision for bad debt | 3 000 | - |
| Actuarial gains-Long service awards | - | 571 136 |
| Tender deposits | 185 650 | 170 700 |
| Sundry income | 22 941 | 175 817 |
| | **246 386** | **1 271 056** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 24. General expenses

| | | |
|---|---|---|
| Advertising | 1 410 086 | 810 952 |
| Assessment rates & municipal charges | 533 121 | 510 870 |
| Audit Committee Members - Remuneration | 325 111 | 152 976 |
| Auditors remuneration | 1 725 463 | 2 543 812 |
| Bank charges | 246 520 | 158 741 |
| Business Expenses Councillors and Directors | 107 142 | 98 854 |
| Cleaning | 29 441 | - |
| Community Based Planning | 2 547 006 | 2 853 525 |
| Compensation Commissioner | 38 127 | 474 476 |
| Conferences and seminars | 1 066 446 | 1 040 043 |
| Consulting and professional fees | 3 114 118 | 2 206 495 |
| Consumables | 85 158 | 80 097 |
| Entertainment | 580 057 | 762 011 |
| Events and Campaigns | 1 448 042 | 1 012 296 |
| General expenses -Other | 608 792 | 367 011 |
| Gifts | 17 342 | 129 495 |
| IDP Review Expenses | 83 685 | 150 390 |
| Insurance | 293 503 | 370 735 |
| Legal Fees | 3 800 744 | 3 943 896 |
| Licence fees - Other | 39 480 | 35 433 |
| Magazines, books and periodicals | 11 009 | 9 599 |
| Motor vehicle expenses | 801 681 | 601 519 |
| Office Rentals | 801 844 | 778 111 |
| Pest control | 204 084 | 137 132 |
| Postage and courier | 4 062 | 19 716 |
| Printing and stationery | 670 820 | 586 187 |
| Protective clothing | 20 707 | 24 146 |
| Public Participation Expenses | 54 052 | 446 731 |
| Skills development levy | 374 158 | 377 882 |
| Subscriptions and membership fees | 539 408 | 361 227 |
| Subsistence and travel | 561 393 | 488 088 |
| Telephone and fax | 632 962 | 866 575 |
| Testing of samples - Health | 160 504 | 74 707 |
| Training and Development - Councillors | 319 860 | 9 701 |
| Training and Development - Employees | 1 078 724 | 1 006 355 |
| Fair value adjustment - Credit purchases | (164 439) | (218 226) |
| | **24 170 213** | **23 271 558** |

Expenditure of non occurring nature is shown under General Expenses - Other

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 25. Employee related costs

| | | |
|---|---|---|
| Basic Salaries | 26 917 833 | 27 664 676 |
| Redemption of Leave | 1 698 881 | 708 045 |
| Cell Phone Allowances | 379 709 | 432 659 |
| Overtime payments | 425 766 | 588 679 |
| 13th Cheques | 1 784 167 | 2 257 682 |
| Car allowance | 2 787 766 | 2 963 519 |
| Housing benefits and allowances | 233 539 | 265 617 |
| Salary Claims - Local Councils | 1 569 263 | 1 526 180 |
| Standby Allowances | 22 586 | 38 371 |
| Allowances Uniforms | 200 | 2 380 |
| Pension Fund - Councils' Contributions | 4 457 921 | 4 463 920 |
| Medical aid - Councils' contributions | 1 645 988 | 1 490 809 |
| Group Life Insurance - Councils' Contributions | 143 920 | 130 105 |
| UIF | 138 030 | 145 583 |
| Industrial Council | 4 826 | 5 194 |
| Long-service awards | 713 689 | 338 074 |
| Post-employment benefits - Defined benefit plan | 1 237 110 | 314 776 |
| | **44 161 194** | **43 336 269** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | - | 813 062 |
| Car Allowance | - | 158 080 |
| Allowances and Contributions to UIF, Medical and Pension Funds | - | 65 145 |
| Leave payout on termination of service | - | 200 969 |
| Acting and cellphone Allowance - SK Sebolai | 375 000 | 384 833 |
| | **375 000** | **1 622 089** |

An acting Municipal manager Mr S K Sebolai was appointed as from the 23 March 2010.

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 335 007 | 315 804 |
| Car Allowance | 89 882 | 89 882 |
| Acting Allowance | 280 453 | 169 676 |
| 13th Cheque | 27 971 | 26 853 |
| Statutary contributions and leave encashment | 181 825 | 47 993 |
| | **915 138** | **650 208** |

Mr M B Daffue act in the position of the CFO as from 1 March 2009

**Remuneration of Director Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 303 426 | 286 032 |
| Car Allowance | 99 941 | 100 116 |
| Acting Allowance | 353 673 | 222 110 |
| 13th Cheque | 25 285 | 24 322 |
| Statutary contributions and leave encashment | 107 837 | 36 135 |
| | **890 162** | **668 715** |

Mrs S C Abrams act as Director Corporate Services as from 1 June 2010.

| Figures in Rand | 2012 | 2011 |
|---|---|---|

**25. Employee related costs (continued)**

**Remuneration of Director Infrastructure**

| | | |
|---|---|---|
| Annual Remuneration | 303 426 | 286 032 |
| Car Allowance | 99 154 | 99 153 |
| Acting Allowance | 332 162 | 213 557 |
| 13th Cheque | 25 285 | 24 322 |
| Statutary contributions and leave encashment | 137 137 | 69 781 |
| | **897 164** | **692 845** |

Mr K T Tshukudu act in the position of Director Infrastructure as from 22 February 2010

**Remuneration of Director District Economic Development**

| | | |
|---|---|---|
| Annual Remuneration | 421 687 | 401 352 |
| Car Allowance | 68 414 | 68 414 |
| Acting Allowance | 278 419 | 221 295 |
| 13th Cheque | 54 404 | 33 446 |
| Cellphone allowance & leave encashment | 30 211 | 44 194 |
| | **853 135** | **768 701** |

Mr T Rampedi act in the position of Director District Economic Development as from 22 February 2010

**Remuneration of Director Disaster Management**

| | | |
|---|---|---|
| Annual Remuneration | 303 426 | 286 032 |
| Car Allowance | 87 779 | 79 092 |
| Acting allowance | 343 283 | 217 979 |
| 13th Cheque | 25 285 | 24 322 |
| Statutary contributions and leave encashment | 133 515 | 25 016 |
| | **893 288** | **632 441** |

Mr R Lesar act in the position of Director Disaster Management as from 10 March 2010

**Remuneration of the Director Environmental Health**

| | | |
|---|---|---|
| Annual Remuneration | 303 426 | 286 032 |
| Car Allowance | 121 585 | 121 585 |
| Acting Allowance | 289 287 | 199 393 |
| 13th Cheque | 25 285 | 24 322 |
| Statutary contributions and leave encashment | 142 854 | 33 325 |
| | **882 437** | **664 657** |

Mrs N P Xaba act in the position of Director Disaster Management as from 10 March 2010

**26. Remuneration of councillors**

| | | |
|---|---|---|
| Executive Major | 631 496 | 550 084 |
| Mayoral Committee Members | 2 890 106 | 2 255 210 |
| Speaker | 528 629 | 449 257 |
| Councilors | 2 362 835 | 2 053 215 |
| Councilors' pension contribution | 432 866 | 915 708 |
| | **6 845 932** | **6 223 474** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 27. Investment revenue

| | | |
|---|---|---|
| **Dividend revenue** | | |
| Sanlam Shares | 1 261 | 1 116 |
| | **1 261** | **1 116** |

The share holding in Sanlam accounts U0063368811 for 483 shares and U0063368951 for 487 shares was received due to the issuing of shares for policies that was in the name of the municipality.

Dividends to the amount of R 1,116 were declared in the prior year , but not yet received.

| | | |
|---|---|---|
| **Interest revenue** | | |
| Investments and call deposits | 11 904 088 | 11 201 891 |
| Total dividend revenue | 1 261 | 1 116 |
| Total interest revenue | 11 904 088 | 11 201 891 |
| **Total investment revenue** | **11 905 349** | **11 203 007** |

The interest income is calculated using the actual effective interest rate received on investments and call deposits.

## 28. Depreciation,impairment and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 2 360 421 | 1 831 839 |
| Intangible assets | 358 510 | 496 638 |
| Impairment on current assets held for sale | 136 000 | 89 082 |
| | **2 854 931** | **2 417 559** |

## 29. Finance costs

| | | |
|---|---|---|
| Finance leases | 49 572 | 25 113 |
| Fair value adjustments on credit purchases | 645 947 | 871 492 |
| | **695 519** | **896 605** |

## 30. Rental of facilities and equipment

No facilities and equipment was rented out for the year under review

## 31. Contracted Services

| | | |
|---|---|---|
| Information Technology Services | 617 162 | 884 934 |
| Other Contractors | 908 196 | 1 231 508 |
| Fair value adjustment - Credit purchases | (10 467) | (19 645) |
| | **1 514 891** | **2 096 797** |

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 32. Grants and subsidies paid

| | | |
|---|---|---|
| City of Matlosana | 17 102 288 | 17 026 313 |
| City Council of Tlokwe | 7 499 590 | 7 307 682 |
| Ventersdorp Local Municipality | 7 871 712 | 15 038 169 |
| Maquassi Hills Local Municipality | 10 121 788 | 7 764 245 |
| Dr Kenneth Kaunda District Municipality | 24 915 616 | 20 095 957 |
| Fair value adjustment - Credit purchases | (466 176) | (624 050) |
| | **67 044 818** | **66 608 316** |

| | | |
|---|---|---|
| **Projects - Dr Kenneth Kaunda District Municipality** | | |
| Business / entrepreneurs | 43 625 | 60 000 |
| Children development | 168 470 | - |
| Communication Unit | 1 497 034 | 1 309 926 |
| Community Agricultural Support | 92 912 | 1 996 |
| Disability development | 202 063 | 47 500 |
| District Expo | 319 141 | 209 402 |
| Disaster Management Advisory Forum | 18 862 | 37 680 |
| Disaster Management Awareness | 567 735 | 1 166 066 |
| Disaster Management Planning | 273 144 | 368 184 |
| Disaster Management Relief | 99 240 | 58 000 |
| District cleaning projects | 6 000 000 | 5 500 |
| Donations | 251 630 | 140 494 |
| Dr Kenneth Kaunda District Economic Entity | 1 500 000 | 1 383 900 |
| Dr Kenneth Kaunda Research Manufacturing Industr | 230 000 | - |
| Dr Kenneth Kaunda Tourism Association | 50 000 | 50 000 |
| Education | 555 741 | 135 159 |
| Elderly development | 15 351 | - |
| Emergency Funding Major Incident | 71 039 | 851 241 |
| Entrepreneurial Month | 2 250 | - |
| Fire Fighting Training & Development | 1 249 937 | 1 115 723 |
| Funeral assistance | 148 072 | 234 825 |
| Funding Finance Management Grant | 499 802 | 645 764 |
| LG Seta mandatory grant | 237 712 | 249 454 |
| Funding Municipal systems improvement grant | 253 907 | - |
| Identify/Preservation of Tourism/Heritage Sites | 232 816 | - |
| Gender development | 349 048 | 318 118 |
| Hosting PVA 2010 Soccer world cup tournament | - | 848 434 |
| LG Seta Environmental Learnerships | 619 922 | - |
| Literary competition | 539 606 | 710 408 |
| Mandella day - special projects | 155 959 | 121 496 |
| Mayoral Golf Fund | 40 000 | 75 600 |
| Merit bursary Community | 2 480 629 | 2 739 483 |
| Merit bursary employees | 198 367 | 335 035 |
| Promotion and Marketing DED | 262 643 | 182 843 |
| Poverty relief | 111 579 | 212 784 |
| Resource & Support Centre | 43 860 | 43 860 |
| Risk Reduction Project | 307 017 | 317 100 |
| Rural Sannitation &Water Backlog @ Schools | - | 186 532 |
| SMME Workshop/Summit | 246 203 | 46 195 |
| Scheikenmaster Meat Processing | - | 2 675 000 |
| Skills Development and Training | 81 172 | 247 114 |
| Special Discretionary on Merit | - | 45 000 |
| Special Projects Desk | - | 205 933 |
| Sport, Arts and Culture | 1 690 588 | 1 662 346 |
| Sports sponsorship | 133 500 | 25 700 |
| Tourism Awareness | 107 000 | 27 350 |
| Tourism Information Centre | 35 000 | 32 100 |
| Tourism & Marketing | 305 760 | 10 121 |
| Traditional food /cultural festival | - | 195 000 |

| Figures in Rand | 2012 | 2011 |
|---|---|---|
| **32. Grants and subsidies paid (continued)** | | |
| Volunteer Unit | 40 993 | 55 125 |
| Vredefort dome | - | 20 100 |
| Volunteers stipend | 1 993 173 | 359 600 |
| Volunteers uniforms | 96 713 | 96 713 |
| Ward Committee Offices | 278 170 | - |
| Women's month | 39 419 | 46 460 |
| Youth develoment - Special projects | 178 811 | 183 593 |
| | **24 915 615** | **20 095 957** |

**Details of Grants paid - City of Matlosana**

| | | |
|---|---|---|
| CCTV Cameras | 10 085 174 | 11 055 521 |
| Dominionville sanitation | - | 343 528 |
| Hartbeesfontein sewer network | - | 2 547 811 |
| Jacaranda electrification | - | 454 662 |
| Jacaranda sanitation | - | 55 651 |
| Jacaranda water augmentation | - | 81 495 |
| Khuma 10ML Reservoir Upgrading | 4 102 955 | 1 818 158 |
| N12 Road Beautification | 122 419 | - |
| Orkney New Community Hall | 368 403 | - |
| Rural fencing Matlosana | - | 172 521 |
| Matlosana Tannery | 250 000 | - |
| Matlosana SME Industrial/Manufacturing | 450 000 | - |
| Rural Development | 1 307 987 | - |
| Rural Development Support | 124 050 | - |
| VIP`S for farms and farm settlements | - | 431 099 |
| Wolwerand water and sanitation | 291 300 | 65 868 |
| | **17 102 288** | **17 026 314** |

**Details of Grants paid - City of Tlokwe**

| | | |
|---|---|---|
| Baitshoki farm solar lighting | - | 623 959 |
| Baitshoki farm multi purpose centre | - | 912 707 |
| Matlwang Access Road | - | 5 298 316 |
| Maintenance N12 Road | 3 898 693 | - |
| Matlwang Bulk Water Supply | 198 520 | - |
| Regional Dolomite Investigations | 1 850 000 | - |
| Tlokwe Beans Project | 475 000 | 472 700 |
| Tlokwe Cement Factory Feasibility Study | 450 000 | - |
| Tlokwe Metal Forming & Casting Factory | 450 000 | - |
| Upgrading & Accreditation Laboratory | 73 066 | - |
| Vegetable production project Matlwang | 104 312 | - |
| | **7 499 591** | **7 307 682** |

**Details of Grants paid - Ventersdorp Local Municipality**

| | | |
|---|---|---|
| Administration Charges | 189 824 | - |
| Acquisition of solid waste compacters | - | 1 447 886 |
| Appeldraai solar lighting | 370 610 | - |
| Appeldraai water supply | 290 477 | 469 590 |
| Boikhutsong water network reticulation | 99 834 | 139 136 |
| Doornkop Water Supply | 505 | - |
| Ext.6-Ventersdorp Township Establihment | 671 208 | 1 087 250 |
| Goedgevonden water network reticulation | 147 445 | 228 542 |
| Graveyard Fencing - Mogopa | - | 552 519 |
| Mayoral Projects Ventersdorp | - | 189 827 |
| Paupers Funerals | 423 818 | 347 889 |
| Premier Support Grant - Refilwe Project | - | 375 290 |
| Registration solid waste site | 193 138 | - |

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 32. Grants and subsidies paid (continued)

| | | |
|---|---|---|
| Township Establish. Toevlug Ventersdorp | - | 4 294 514 |
| Spatial development framework review | - | 456 300 |
| Tshing Roads | - | 3 505 340 |
| Tshing Road Repair | 183 240 | - |
| Tsing street lights | 87 799 | - |
| Tstetse water network reticulation | 48 780 | 118 998 |
| Two Bedrooms Clinics - Ventersdorp | 210 034 | 595 |
| Ventersdorp Agri-Hub Establishment | 550 000 | - |
| Ventersdorp Bulk Electricity Supply | 3 000 000 | - |
| Ventersdorp Olive Oil Orchard Plan | 580 000 | - |
| Ventersdorp rural development regraveling | 400 000 | 1 276 794 |
| Ventersdorp Vineyard Project | 425 000 | 547 700 |
| | **7 871 712** | **15 038 170** |

**Maquassi Hills Local Municipality**

| | | |
|---|---|---|
| Boskuil Refurbishment Electricity | 98 253 | - |
| Construction community hall Maquassi-Hills | 5 693 100 | 189 022 |
| Expanded public Works Program | 395 387 | - |
| Fleet Capital | 292 500 | - |
| Maquassi Hills Piggery | 460 737 | 472 700 |
| Mayoral projects | - | 248 270 |
| Maquassi Hills Agro-Processing Incubator | 1 000 000 | - |
| Maquassi Hills Cattle Feedlot | 840 000 | - |
| Mobile offices ward commitees Maquassi-Hills | - | 99 623 |
| Oersonskraal & Boskuil water augmentation | 388 034 | 373 552 |
| Performance Management IT System | - | 447 631 |
| Rural development Boskuil & Oersonskraal | - | 607 879 |
| Speed Humps Wolmaranstad | - | 232 992 |
| Steetlights | 82 832 | - |
| Streetlights Lebaleng Ext 10 | 74 340 | 2 392 575 |
| Street naming | 228 535 | - |
| Water management project Maquassi-Hills | - | 2 000 000 |
| Waste collection trucks Maquassi-Hills | 568 070 | - |
| Yellow bins Maquassi-Hills | - | 700 000 |
| | **10 121 788** | **7 764 244** |

| | | |
|---|---|---|
| Total Grants and Subsidies paid | 67 044 818 | 66 608 316 |
| **Total grants and subsidies paid** | **67 044 818** | **66 608 316** |

## 33. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 17 112 133 | 9 772 108 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 2 854 931 | 2 417 559 |
| Loss on disposal of property, plant & equipment | - | 9 404 504 |
| Fair value adjustments - shares | (7 946) | (4 558) |
| Provision for leave reserve | 1 945 995 | (1 246 553) |
| Debt impairment | 1 264 024 | 98 454 |
| Movements in operating lease assets and accruals | (438 645) | (808 077) |
| Movements in retirement benefit assets and liabilities - Non current | 1 727 902 | (73 942) |
| Movements in provisions - Current | 44 516 | (66 819) |
| **Changes in working capital:** | | |
| Receivables from exchange transactions | 2 309 783 | (4 048 530) |
| Trade and other payables | 4 887 168 | 9 765 934 |
| VAT | 1 495 882 | (2 177 510) |
| Unspent conditional grants and receipts | 389 040 | (698 855) |
| | **33 584 783** | **22 333 715** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

## 34. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Total approved and contracted for** | | |
| • Infrastructure - Other | 2 085 071 | 763 337 |
| • Water | 4 175 046 | 1 439 435 |
| • Electricity - Street lights | 2 710 457 | - |
| • Other | - | 430 000 |
| • Sanitation / Waste disposal | 4 183 481 | 2 251 304 |
| • Roads and Stormwater | 1 107 840 | - |
| | **14 261 895** | **4 884 076** |

| | | |
|---|---|---|
| **This expenditure will be financed from:** | | |
| Own resources | 1 461 895 | 4 884 076 |

**Operating leases – as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 384 355 | 4 921 098 |
| - in second to fifth year inclusive | 3 722 | 388 077 |
| | **388 077** | **5 309 175** |

The amount of R5,533 175 as shown in the 2010/2011 financial statement was restated with an amaount of R224 000 to R5 309 175 due to that the lease contract with Toshiba was terminated in March 2012

Operating lease payments represent rentals payable by the municipality for certain office equipment and office buildings. Leases are negotiated for an average term of 36 months . No contingent rent is payable.Operating lease payments represent rentals payable by the municipality for:

**1.Public Surveillance System (CCTV and Security Service)**

The municipality lease a Public Surveillance System. The lease was classified as a operating lease on the following grounds:1.The Municipality have obtained all the information of the lease installments and expensed it in the Statement of Financial Performance on a straight-line basis.

2.The difference between the equalised lease payment and the actual cash flow is recognised as a deferred asset or liability in the statement of financial position.

Clause1 Service description states that the the lessee shall install, operate, maintain, and insure the CCTV System.
The original agreement was signed on the 2 Nov 2005 and the period for the lease was 36 months. A new lease contract was entered into and signed on the 7 Nov 2008 for a further period of 36 months
The monthly lease amount as per the agreement to R819,072.70 (Excl VAT), with a 12% escalation per year.

General description of lease arrangements
No contingent rent
No restrictions – the lease is for a period of 36 months as from 7 Nov 2008
Accumulative annual escalation is 12%
Option to renew the contract for another 36 months is included under Period of lease paragraph 2.2

**34. Commitments (continued)**

**2. Gizmo**
The municipality lease a printer multifunction copier and a colour lazer printer from Gizmo. The lease was classified as a operating lease the following grounds:
1.The Municipality have obtained all the information of the lease installments and expensed it in the Statement of Financial Performance on a straight-line basis.
2.The difference between the equalised lease payment and the actual cash flow is recognised as a deferred asset or liability in the statement of financial position.

3.Gizmo shall maintain and service the equipment.
4.The agreement was signed on the 20 July 2010 and the period for the lease is 36 months.
3.The monthly lease amount as per the agreement is R3722.00 (Excl VAT), No escalation was agreed on in the lease

**3. Old Mutual**
The municipality lease an Office Building from Old Mutual. The lease was classified as a operating lease on the following grounds:
1.The Municipality have obtained all the information of the lease installments and expensed it in the Statement of Financial Performance on a straight-line basis.
2.The difference between the equalised lease payment and the actual cash flow is recognised as a deferred asset or liability in the statement of financial position.
3.Old Mutual shall maintain the building.
6.A new lease was entered into on the 1st March 2010 for a period of 36 months for an amount R35092.00 (Excl VAT), a 10% escalation was agreed on the lease.

4**. Toshiba**
The municipality lease photocopiers from Toshiba. The lease was classified as a operating lease on the following grounds:
1.The Municipality have obtained all the information of the lease installments and expensed it in the Statement of Financial Performance on a straight-line basis.
2.The difference between the equalised lease payment and the actual cash flow is recognised as a deferred asset or liability in the statement of financial position.
3. Toshiba shall maintain and service the equipment.
4.The agreement was signed on the 30 Oct 2009 and the period for the lease was 36 months.
5.The monthly lease amount as per the agreement is R32 0000 (Excl VAT), No escalation was agreed on in the lease.
**General description of lease arrangements**
No contingent rent
No restrictions – the lease is for a period of 36 months as from 1 Nov 2009. The contract was terminated in March 2012
No accumulative annual escalation is included in the lease
No Option to renew the contract is stipulated in the lease.
Toshiba have sold the rights and titles of the agreement to M W Asset Rentals (Pty)Ltd.

**35. Contingencies**

**Contingent Assets and Contingent Liabilities**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

**Disclosure of contingent liabilities**

No contingent liabilities liabilities exist for the year under review

**36. Related parties**

## Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 36. Related parties (continued)

**Relationships**

| | |
|---|---|
| Accounting Officer | Refer to accounting officer's report |
| Short term benefits employees | Refer to note 25 |
| Post employment benefit plan for employees of the entity and/or other related parties | Refer to note 9 |
| Entity | Refer to note 4 |
| Members of Council | Refer to page 1 |
| Municipal Manager and head of departments | SK Sebolai - Acting Municipal Manager from 23 March 2010<br>M B Daffue - Acting CFO<br>S C Abrams - Acting Director Corporate Services<br>T Tshukudu - Acting Director Infrastructure<br>R Lesar - Acting Director Disaster Management<br>T Rampedi - Acting Director District Economic Development<br>N P Xaba - Acting Director Health Services |

The council supply these Projects with funds via the DR kenneth Kaunda Economic Agency.

**Related party transactions**

| **Other Related Parties** | | |
|---|---|---|
| Dr Kenneth Kaunda District Economic Development Agency | 1 500 000 | 1 383 900 |
| Dr Kennenth Kaunda Research Manufacturing Industr | 230 000 | - |
| Maquassi Hills Agro-Processing Incubator | 1 000 000 | - |
| Maquassi Hills Cattle Feedlot | 840 000 | - |
| Maquassi Hills Piggery | 460 737 | 472 700 |
| Matlosana SME Industrial/Manufacturing | 450 000 | - |
| Matlosana Tannery | 250 000 | - |
| Tlokwe Beans Project | 475 000 | 472 700 |
| Tlokwe Cement Factory Feasibility Study | 450 000 | - |
| Tlokwe Metal Forming & Casting Factory | 450 000 | - |
| Scheikenmaster Meat Processing | - | 2 675 000 |
| Ventersdorp Agri-Hub Establishment | 550 000 | - |
| Ventersdorp Olive Oil Orchard Plan | 580 000 | - |
| Ventersdorp Vineyard Project | 425 000 | 547 700 |

| **Tenders awarded to close family members in service of the municipality** | | |
|---|---|---|
| Mrs SC Abrams Acting Director Corporate Services | - | 361 051 |

| **Work awarded to close family members in service of the municipality** | | |
|---|---|---|
| Mrs SC Abrams Acting Director Corporate Services | 26 422 | - |

Printing work was awarded to Moedi Consulting Engineers. The husband of Mrs Abrahams is a director in this company. This was done in emergency circumstances over a weekend when Moedi consulting engineers was contracted for printing of Councils agenda's due to a breakdown of Councils printers.The approval of the Municipal Manager was obtained prior Moedi consulting was contracted for printing work.

| **Work awarded to close family members in service of the municipality** | | |
|---|---|---|
| P Khumoeng - Secretary in the office of the Municipal Manager | 335 160 | - |
| P Khumoeng - Secretary in the office of the Municipal Manager | 319 770 | - |

Tenders awarded to King & Associates to the amount of R654,930.The husband of Mrs Khumong is a director in this company. All the Supply chain processes were followed

### 37. Correction of errors

The correction of the error(s) results in adjustments as follows:

**Transactions affecting prior year errors**

## Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|
| **37. Correction of errors (continued)** | | |
| **Transactions affecting Salary Control Account as at 30 June 2010** | | |
| Statement of financial performance - Accumulated Surplus 30 June 2010 | - | 7 860 |
| Statement of financial position - Debtors (Salary Suspense Account) | - | (7 860) |
| Correction of Accumulated Surplus as at 30 June 2010. Correction of actual expense incorrectly debited against salary control account. | | |
| **Transactions affecting cancelled cheques in prior years** | | |
| Statement of financial performance - Salaries and Wages | - | (4 932) |
| Statement of changes in net assets - Accumulated surplus 30 June 2010 | - | (118 070) |
| Statement of financial position - Primary Bank Account | - | 123 002 |
| Restatement of cheques issued in the prior financial year cancelled in the 2011/12 year | - | - |
| **Transactions affecting Grants and subsidies paid not accrued for in prior financial years** | | |
| Statement of financial position - VAT | - | 50 427 |
| Statement of Changes in Net Assets - Accumulated Surplus 30 June 2010 | - | 315 180 |
| Statement of financial performance - Grants and Susidies paid | - | 45 000 |
| Statement of financial position - Creditors | - | (410 607) |
| Accrual for training expenses incurred in prior finacial years and paid in the current financial year. | | |
| **VAT Correction** | | |
| Statement of financial performance - Legal costs | - | 96 445 |
| Statement of financial performance - Fuel and oil | - | 742 |
| Statement of financial performance - Advertisements | - | 1 269 |
| Statement of financial position - VAT Receivable | - | (98 457) |
| VAT Correction in the prior financial year | | |
| **Loan repayment on behalf of Tlokwe Municipality in prior financial year** | | |
| Statement of Changes in Net Assets - Accumulated Surplus 30 June 2010 | - | 4 118 326 |
| Statement of financial position - Trade Receivables ( DBSA payments on behalf of Councils) | | (4 118 326) |
| Statement of financial position - Trade Receivables -Provision for doubtfull debts | - | 4 118 326 |
| Statement of Changes in Net Assets - Accumulated Surplus 30 June 2010 | - | (4 118 326) |
| Restatement of Loans paid on behalf of Tlokwe Municipality in prior years against Grants and Subsidies paid, recovered in 2012 | | |

| | | |
|---|---|---|
| **Transactions affecting the takeon of assets not previously recognised.** | | |
| Statement of financial position - Property ,Plant & Equipment at cost | - | 60 100 |
| Statement of Changes in Net Assets - Accumulated surplus 30 june 2012 | - | (60 100) |
| | - | - |

Correction of PPE items incorrectly expensed as at 30 June 2010

---------------------------------------------------------------------------------------------------------------------------------------------------------------

| | | |
|---|---|---|
| **Transactions affecting Accumulated surplus as at 30 June 2010.** | | |
| Statement of financial performance - General expenses | - | (350 208) |
| Statement of Changes in Net Assets - Accumulated surplus 30 june 2010 | - | 350 208 |
| Correction of Salga membership fees for 2010/11 financial year paid in advance in the prior financial year. | | |
| | - | - |

Correction of PPE items incorrectly expensed as at 30 June 2010

| Figures in Rand | 2012 | 2011 |
|---|---|---|

**37. Correction of errors (continued)**

| | | |
|---|---|---|
| **Transactions affecting the takeon of assets not previously recognised.** | | |
| Statement of Changes in Net Assets - Accumulated surplus 30 June 2010 | - | 10 097 |
| Statement of financial performance - Depreciation 2011 | - | 5 770 |
| Statement of financial position - Property, Plant & equipment ( Accumulated Depreciation) | - | (15 867) |
| | **-** | **-** |

Correction of accumulated depreciation on PPE items incorrectly expensed as at 30 June 2010

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| | | |
|---|---|---|
| **Transactions affecting cash on hand as at 30 june 2010** | | |
| Statement of Changes in net Assets - Accumulated Surplus 30 June 2010 | - | 411 |
| Statement of financial position - Cash on hand | - | (411) |
| | **-** | **-** |

Cash on hand as at 30 June 2010 from Merafong Flora project written of to Accumulated surplus.

-----------------------------------------------------------------------------------------------------------------------------------------------------------------------

| | | |
|---|---|---|
| **Fair value adjustments on credit purchases for 2010/11 financial year corrected** | | |
| Statement of financial performance - Finance cost | - | 871 492 |
| Statement of financial performance - Repairs and Maintenance | - | (9 571) |
| Statement of financial performance - Grants and Subsidies paid | - | (624 050) |
| Statement of financial performance - General Expenses | - | (218 226) |
| Statement of financial performance - Contracted Services | - | (19 645) |
| | **-** | **-** |

Fair value adjustments not disclosed in the 2010/11 financial statements.

-----------------------------------------------------------------------------------------------------------------------------------------------------------------------

| | | |
|---|---|---|
| **Transactions affecting the disclosure of General Expenses** | | |
| Statement of financial performance - General expenses - Membership fees | - | (371 121) |
| Statement of financial position - Receivables from exchange transactions - Prepayments | - | 371 121 |
| | **-** | **-** |

Salga 2011/12 membership fee paid in advance in the 2010/11 financial year.

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**38. Risk management**

**Capital risk management**

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of , cash and cash equivalents and equity as disclosed in the statement of financial position.

### 38. Risk management (continued)

Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio.

This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

**Financial risk management**

The municipality’s is  expose to a variety of financial risks: market risk , fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited and manageble.

Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.  Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply.  Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.
The Directorate: Financial services monitors and manages the financial risks relating to the operations through internal policies and procedures.  These risks include interest rate risk, credit risk and liquidity.  Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.
Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

### 38. Risk management (continued)

**Liquidity risk**

Liquidity risk is the risk that the Municipality difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Municipality managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

| **At 30 June 2012** | **Less than 1year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
| --- | --- | --- | --- | --- |
| Trade and other payables | 25 267 314 | - | - | - |
| Finance lease liability | 196 595 | 124 125 | - | - |

| **At 30 June 2011** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** | **Over 5 years** |
| --- | --- | --- | --- | --- |
| Trade and other payables | 18 434 151 | - | - | - |
| Finance lease liability | 170 952 | 196 595 | 124 125 | - |

**Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months.The current Interest rate shown below is the interest on call investment deposits at year end or the average interest earned during the past year under review

**Cash flow interest rate risk**

| **Financial instrument** | **Current interest rate** | **Due in less than a year** | **Due in one to two years** | **Due in two to three years** | **Due in three to four years** | **Due after five years** |
| --- | --- | --- | --- | --- | --- | --- |
| Cash in current banking institutions | 1,20 % | 7 768 802 | - | - | - | - |
| Call investment deposits | 5,50 % | 201 417 148 | - | - | - | - |

**Credit risk**

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities.

Each class of financial instrument is disclosed separately.
Maximum exposure to credit risk not covered by collateral is specified.
Financial instruments covered by collateral are specified.

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 38. Risk management (continued)

Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting.

Financial assets exposed to credit risk at year end were as follows:

| Financial instrument | 2012 | 2011 |
|---|---|---|
| Call investment deposits | 201 417 148 | 161 037 645 |
| Receivables from exchange transactions | 1 846 324 | 5 420 131 |
| Bank balances and cash | 8 086 591 | 15 779 431 |

The maximum credit and interest risk exposure in respect of the relevant financial  instruments amounts to  as indicated above.

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municiplity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.
There has been no change to the municipalilty's exposure to market risk on the manner in which manages

### 39. Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.estimation of its financial effect or a statement that such an estimation cannot be made.
No events having financial implications  requiring disclosure occured subsequent to 30 June 2012.

## Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 40. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening Balance | 3 182 181 | - |
| Fruitless and wasteful expenditure | 153 024 | 76 000 |
| Employees on suspension | - | 3 106 181 |
| | **3 335 205** | **3 182 181** |

Fruitless and wasteful expenditure represent interest and penalties on late payment

### 41. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 50 284 710 | 35 354 265 |
| Add: Irregular Expenditure - current year | 2 557 383 | 27 273 184 |
| Less: Amounts condoned | (45 473 801) | (12 342 739) |
| **Amounts not yet condoned** | **7 368 292** | **50 284 710** |

**Analysis of expenditure awaiting condonation per age classification**

### 41. Irregular expenditure (continued)

**Details of Irregular Expenditure – Current year**

| | | |
|---|---|---|
| | | - |
| No competitive bidding process followed for awards(Continious payments) | Contrary to supply chain regulation 12(1)(d) & 19(a)) | 1 222 823 |
| Double payment for the same project | (Contrary to supply chain regulation 12(1)(d) & 19(a)) | 27 799 |
| Reported awards made to persons in service of the state | (Contrary to section 3 regulation 44 of the SCM regulations) | 1 194 753 |
| | | - |
| | | - |
| | | - |
| Non compliance with circular 53 with regards to the evaluation of bids | (Contrary to circular 53 of the MFMA) | 112 008 |
| | | **2 557 383** |

**Details of Irregular Expenditure condoned**

| | | |
|---|---|---|
| | **Condoned by council** | |
| Amounts recoverable (not condoned) prior years | (Prior years Irregular expenses condoned by Council). | 1 601 600 |
| Amounts not recoverable (not condoned) prior years | (Prior years Irregular expenses condoned by Council). | 21 409 926 |
| No competitive bidding process followed for awards (Continious payments) | Contrary to supply chain regulation 12(1)(d) & 19(a)) | 13 974 620 |
| | | - |
| Payments exceeding maximum amounts allowed as per funeral policy | (Deviation from funeral policy) | 94 301 |
| Payments above approved budget amounts | [Contrary to section 116(2) of the MFMA) | 98 000 |
| Awards made to an employee | (Contrary to SCM regulations 44) | 3 780 |
| Payments to suppliers without tax clearence certificates | Contrary to supply chain regulation 43(1)) | 52 529 |
| Reported awards made to persons in service of the state | (Contrary to regulation 44 of the SCM regulations) | 3 706 855 |
| Preference point system not applied for expenditure between R30 000 - R500 000 | (Contrary to section 3 Preferential Procurement Policy Framework Act) | 188 100 |
| Goods and services were made without approved requests | (SCM flowchart and Policy) | 10 700 |
| Three quotations not obtained from different suppliers | (Contrary to section 17 of SCM policy) | 11 600 |
| Awards made to suppliers that are deregistred or voluntarily liquidated | (Contrary to section 38 of the SCM regulations) | 1 877 487 |
| Non compliance with circular 53 with regards to the evaluation of bids | (Contrary to circular 53 of the MFMA) | 1 937 280 |
| 80/20 preferential points sytem used on tenders above R500,000 | Contrary to section 35 of the SCM regulations) | 507 023 |
| | | **45 473 801** |

**Details of Irregular Expenditure not recoverable (not condoned)**

| | |
|---|---|
| Payments exceeding maximum amounts allowed as per funeral policy | 66 028 |
| No competitive bidding process followed for awards (Continious payments) | 4 744 881 |
| | **4 810 909** |

### 42. In-kind donations and assistance

No in-kind donations and assistence were received

# Notes to the Annual Financial Statements

| Figures in Rand | 2012 | 2011 |
|---|---|---|

### 43. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/(deficit) with the surplus/(deficit) in the statement of financial performance:

| | | |
|---|---|---|
| Net surplus per the statement of financial performance | 16 339 850 | 9 772 108 |
| **Adjusted for:** | | |
| Gain / loss on write -off on the sale of assets | - | 9 397 504 |
| Increases / decreases in provisions | 2 032 049 | - |
| Net over budgeting of revenue | 4 347 442 | - |
| Net underspending on approved budget | (118 073 862) | (20 775 838) |
| Transfer from accumulated surplus | 93 347 410 | - |
| Unbudgeted revenue - Dividends | (1 261) | (1 116) |
| Unbudgeted depreciation, amortisation and impairments | 51 829 | 1 507 689 |
| Unbudgeted finance charges | 695 519 | 25 112 |
| Unbudgeted debt impairment | 1 261 024 | 95 454 |
| **Net surplus per approved budget** | **-** | **20 913** |

### 44. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to Organised Local Government**

| | | |
|---|---|---|
| Opening balance / (Amounts paid in advance) | (371 121) | (350 208) |
| Current year subscription | 521 227 | 350 208 |
| Amount paid - current year | (150 106) | - |
| Amount paid - in advance | (630 240) | (371 121) |
| | **(630 240)** | **(371 121)** |

Membership fees paid to SALGA. SALGA's membership fees increased with .2% from from .6% to .8% for the year under review.The increase is also due to the increase in the budget for employees remuneration due to the takeover of the fire services in Maquassi-Hills and Ventersdorp.

**Audit fees**

| | | |
|---|---|---|
| Current year audit fee | 1 725 463 | 2 543 812 |
| Amount paid - current year | (1 725 463) | (2 543 812) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year payroll deductions | 7 516 282 | 7 875 679 |
| Amount paid - current year | (7 516 282) | (7 875 679) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year payroll deductions and council contributions | 6 727 663 | 6 555 477 |
| Amount paid - current year | (6 727 663) | (6 555 477) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 2 817 118 | 4 313 000 |
| | **2 817 118** | **4 313 000** |

VAT output payables and VAT input receivables are shown in note 11.

### 44. Additional disclosure in terms of Municipal Finance Management Act (continued)

All VAT returns have been submitted by the due date throughout the year.

### 45. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E (1) for the comparison of actual operating expenditure versus budgeted expenditure.

### 46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviations set under this note were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

# Notes to the Annual Financial Statements

Figures in Rand

### 47. Comparative and actual information

The comparative figures were restated as a result of the effect of prior period. ( Refer to note 37 for narrative reasons for variances.)

### 48. Private Public Partnerships

Council has not yet entered into any public partnerships during the financial year under review